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RUEHMN/AMEMBASSY MONTEVIDEO 2568  
RUEHSG/AMEMBASSY SANTIAGO 2265  
RUEHLP/AMEMBASSY LA PAZ 3658  
RUEHKG/AMEMBASSY KINGSTON 0130  
RUCPDO/USDOC WASHDC 2999  
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STATE FOR WHA/BSC, WHA/EPSC, EEB/AMONSARRAT  
STATE PASS USTR FOR KATE DUCKWORTH  
STATE PASS FED BOARD OF GOVERNORS FOR ROBITAILLE  
STATE PASS EXIMBANK  
STATE PASS OPIC FOR DEMROSE, NRIVERA, CMERVENNE  
NSC FOR TOMASULO  
TREASURY FOR JHOEK  
USDOC FOR 4332/ITA/MAC/WH/OLAC  
USDOC ALSO FOR 3134/USFCS

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SUBJECT: BIOFUELS ROUNDTABLE FOR A/S SULLIVAN IN SAO PAULO

11. SUMMARY: Assistant Secretary of State for the Bureau of Economic, Energy, and Business Affairs, Daniel Sullivan held a roundtable on biofuels developments on December 12 at the American Chamber of Commerce in Sao Paulo. Biofuels interlocutors applauded the USG's progress on the U.S.-Brazil Memorandum of Understanding (MOU), but lamented that Brazil's private sector has been more active than the Brazilian government on many biofuels initiatives. The assembled group told A/S Sullivan that the number one roadblock to furthering worldwide ethanol expansion is the lack of information for industry and consumers especially in how to utilize and commoditize ethanol. Post will continue working on ways to engage the private sector in advancing the MOU. END SUMMARY.

12. Alfred Szwarc, an adviser to the Board of the Brazilian Sugar Cane Industry Union (UNICA), lamented that the U.S.-Brazil MOU had not moved more quickly, but noted that he thought both sides had made significant progress on standardization, as well as some efforts at establishing the framework for making ethanol a commodity. [Note: UNICA is the leading sugarcane agribusiness association in Brazil with 100 members, representing 50 percent of the total production of sugar cane, sugar, and ethanol. End Note.] Szwarc was part of a November scientific visit to the U.S. and commended both sides on developing an ongoing scientific exchange, but noted there should be further advancement on including third party countries into the process. A/S Sullivan concurred that the most progress had been on issues where the two governments had a leading role and noted that public-private integration can potentially delay implementation, but underscored the importance of the private sector in expanding ethanol as a global commodity.

13. Commercial Manager for Coimex Trading Company Manfred Wefers outlined Coimex's role as a Brazilian logistics company specializing in logistics, imports, exports, and infrastructure development. He briefed A/S Sullivan on Coimex's progress in building the world's largest private container terminal which will include a liquid terminal for ethanol storage at Santos, Brazil's largest port. He also outlined Coimex's plan to build a U.S. port terminal for

imports of ethanol either in Tampa, Savannah, or Jacksonville. Coimex is banking on the continued growth of ethanol consumption and sees the near absence of ethanol storage and filling containers in the U.S. Southeast as an opportunity. Wefers stated that these facilities could receive ethanol at a competitive price from Jamaica and other Caribbean Basin Initiative countries where Coimex has production and dehydration facilities. In Jamaica, Coimex has worked with the Jamaican government (GOJ) to promote the use of gasoline blending to include five percent ethanol, which he said the GOJ hopes to implement next year.

¶4. Plinio Nastari, President of Datagro Publications Ltd., gave a brief regional overview for A/S Sullivan. He discussed his work in Central America to encourage production, noting that El Salvador has been very receptive, as well as some initial signs of interest in Honduras and Guatemala. Sullivan highlighted that CAFTA countries exports of ethanol have increased by 400 percent because of the duty free access, and lauded El Salvador's efforts on implementing ethanol gasoline blending. [Note: Datagro is recognized by many as the top industry newsletter for the sugar and ethanol sector in Brazil. Nastari is also President of Plinio Nastari Consulting (PNCP), which provides consulting services to sugar mills, trading companies, and the Brazilian government. End Note.]

¶5. Nastari urged A/S Sullivan to convey to Washington that the U.S. needs to signal to these countries the potential market for ethanol production. He suggested three concrete ways the U.S. could help in developing an ethanol market. First, he recommended the USG support, through USAID or World Bank, specific consulting projects that would put planned projects into action. Secondly, he underscored the need for the USG to encourage private sector development of a liquid futures market for ethanol. Finally, he urged A/S Sullivan to support the inclusion of ethanol as an

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environmentally friendly product within the WTO.

¶6. In response to A/S Sullivan's request to define the largest roadblock to furthering ethanol expansion, Nastari said the lack of information and insufficient marketing left consumers and industry unaware of some basic facts regarding ethanol. As an example, he pointed out the fact that any car can use up to ten percent ethanol blend without any modifications to the engine. He also noted many potential producing countries erroneously compare sugar cane prices to ethanol prices instead of molasses to ethanol when making investment decisions. He noted molasses producers should be producing ethanol as well because the profit comparison for molasses and ethanol is much more advantageous for ethanol while with sugar it is not as advantageous.

¶7. Pedro Bentacourt from General Motors (GM) highlighted that in the last five years Brazilian sales of flex fuel cars totaled almost 2.5 million cars. He noted that GM Brazil's CEO is leading a subgroup within the industry to develop standardization and development of ethanol as a global commodity. GM is very open to working with others, to the point of disclosing technology to improve market access, he said. Bentacourt agreed with Nastari that the biggest roadblock in addition to developing infrastructure and industry standards is accurate and widespread access to information. He said GM developed a campaign in the U.S. to encourage gas stations to expand capacity for ethanol pumps at its own expense, but the lack of infrastructure and understanding of the market is a big roadblock for them.

¶8. COMMENT: Ethanol industry interlocutors provided a frank discussion for A/S Sullivan outlining their concerns about delays in implementation of the MOU; however, they agreed with the Assistant Secretary that the bilateral initiative is moving more quickly than

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anticipated. Their collective comments on the need to improve information and infrastructure in Brazil ring true. Post will continue to engage the private and public sectors on biofuels issues and in advancing progress on the MOU. END COMMENT.

¶9. This cable was coordinated with A/S Sullivan's delegation.

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